UNIVERSITY PHYSICIANS’ SERVICES, INCORPORATED, PETITIONER, VS. MARIAN CLINICS, INC. AND DR. LOURDES MABANTA, RESPONDENTS.

G.R. No. 152303. September 01, 2010

Ponente: LEONARDO-DE CASTRO, J.

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LEONARDO-DE CASTRO, J.:

What happens when personal properties inside leased premises are stipulated as included in the contract of lease? Does a judgment on a suit for unlawful detainer ejecting the lessees from the subject property carry with it the return of these personal properties as well? Finally, the trickier part which is the crux of this petition: what if some of these personal properties are lost, destroyed or sold by the lessor? May the ejected lessees still be ordered to pay for their value?

This is a Petition for Review under Rule 45[1] of the Rules of Court assailing the October 18, 2001 Decision[2] of the Court of Appeals in CA-G.R. CV No. 34971, which in turn affirmed the Order[3] in Execution dated November 5, 1990 of the Regional Trial Court (RTC) of Manila.

The factual and procedural antecedents of this case are as follows:

On May 31, 1973, Marian Clinics, Inc. (MCI) and University Physicians' Services, Incorporated (UPSI) entered into a Lease Agreement whereby the former leased to the latter the Marian General Hospital (MGH) and four schools for a period of ten (10) years, from June 1, 1973 to May 31, 1983. The land, buildings, facilities, fixtures and equipment appurtenant thereto, including the Soledad Building, were included in the lease, for which a monthly rental of P70,000 was agreed upon.

On October 7, 1975, UPSI filed a complaint for specific performance against MCI, alleging that (1) MCI failed to deliver Certificates of Occupancy on certain buildings, and (2) there were some defective electrical installations that caused the issuance of a Condemned Installation Notice by the Office of the City Electrician of the City of Manila. UPSI prayed for the delivery of the Certificates of Occupancy of the buildings leased, for the correction of the defects in the electrical installations thereon, and damages. The complaint was docketed as Civil Case No. 99934 in the Court of First Instance[4] (CFI) of Manila, Branch 34.

On October 30, 1975, UPSI sent a letter to MCI, informing it of the filing of the complaint and the suspension of payment of the monthly rentals until the resolution of the case. On November 7, 1975, MCI sent a demand letter to UPSI for the payment of the rent.[5]

On December 18, 1975, MCI and Dr. Lourdes F. Mabanta (Dr. Mabanta) filed a Complaint for Unlawful Detainer against UPSI with the then City Court of Manila (now the Metropolitan Trial Court of Manila [MeTC]). The Complaint[6] was docketed as Civil Case No. 006665-CV.

In the meantime, UPSI filed with the CFI a Motion availing of its right to suspend payment of rentals under Article 1658[7] of the Civil Code. In an Order dated January 29, 1976, the CFI ordered that all payments shall be

made to said court pending the resolution of the case.

On August 10, 1980, the City Court rendered its Decision in Civil Case No. 006665-CV, dismissing the unlawful detainer case on the finding that (1) UPSI's suspension of rental payments was justified; and (2) there was no ground to cause the rescission of the lease and warrant the ejectment of UPSI. MCI and Dr. Mabanta appealed to the RTC of Manila, where the case was raffled to Branch 35 and was docketed as Civil Case No. 135396.

During the pendency of these cases, on September 1, 1980, MCI ceded to the Development Bank of the Philippines (DBP) some of the leased buildings, including certain facilities, furniture, fixtures and equipment found therein, in full settlement of MCI's debt to DBP. The Deed of Cession of Properties in Payment of Debt (Dacion en Pago) contained an annex (Annex A) which listed the properties ceded to DBP.[8] Upon the execution of the dacion en pago, UPSI paid P60,000 of the monthly rental to DBP as the new owner of the properties subject of the dacion en pago.

On April 21, 1983, the RTC of Manila affirmed the City Court Decision dismissing MCI's unlawful detainer case. This case was appealed to the Intermediate Appellate Court[9] (IAC), where it was docketed as CA-G.R. SP No. 00994.

On February 24, 1984, while the RTC Decision in the unlawful detainer case was under review with the IAC, UPSI bought from DBP the leased properties ceded to the latter by MCI under the dacion en pago.[10]

On February 28, 1985, the IAC rendered its Decision[11] reversing the rulings of the lower courts. According to the IAC, the absence of the certificates of occupancy for two of the leased buildings, being a matter between the owner of the building and the city government, did not impair the peaceful and adequate enjoyment by UPSI of the premises.[12] The IAC further held that the alleged defective electrical installations on the premises leased is no justification for the refusal to pay rentals, as, under Article 1663 of the Civil Code, the lessee may have said installations properly reinstalled at the expense of the lessor.[13] The dispositive portion of the IAC Decision reads:

> Upon all the foregoing considerations, the decision of respondent court, under review, is hereby REVERSED. [UPSI] is hereby ordered to pay to [MCI and Dr. Mabanta] the agreed rental of PhP70,000.00 a month from November 1975 to May 31, 1983, deducting therefrom the amount already withdrawn by [MCI and Dr. Mabanta] from the rentals deposited with respondent court in Civil Case No. 99934; crediting to [UPSI] the amount of PhP60,000.00 monthly from September 24, 1980 to May 31, 1983, said amount having been paid the DBP for the properties ceded by [MCI and Dr. Mabanta] in the "dacion en pago"; and to pay interests on the amounts still due, at the legal rate, from the time that said amounts became due until they are fully paid.
>
> [UPSI's] motion for reconsideration of the resolution of the Court dated October 1, 1984 is hereby GRANTED and the issue of compensation for the continued occupancy of the remaining leased premises as well as the renewal of the lease and the return of the hospital equipment, fixtures, and supplies prayed for, are hereby left to the decision in Civil Case No. 83-21275 in the Regional Trial Court in Manila. Costs against [UPSI].[14]
>
> Both MCI and UPSI filed Motions for Reconsideration of the above Decision. MCI assailed the IAC's failure to include in its order the ejectment of UPSI from the premises and the return of the same. UPSI, however, insists that there was no violation of the lease agreement, raising the same arguments it presented before the February 28, 1985 Decision.

On July 18, 1985, the IAC issued a Resolution[15] granting MCI's Motion for Reconsideration and denying that of UPSI. Noting the finding that UPSI violated the lease agreement by failing to pay the stipulated rentals, the IAC ruled that MCI may now require UPSI to vacate the leased premises. As regards UPSI's Motion, the IAC held that the issues concerning the alleged defective electrical installations and failure to deliver certificates of

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occupancy had already been sufficiently passed upon. The IAC thus amended the dispositive portion of the February 28, 1985 Decision to read as follows:

> Upon all the foregoing considerations, the decision of respondent court, under review, is hereby REVERSED. [UPSI] is hereby ordered to pay to the [MCI and Dr. Mabanta] the agreed rentals of P70,000.00 a month from November 1975 to May 31, 1983, deducting therefrom the amount already withdrawn by [MCI and Dr. Mabanta] from the rentals deposited with respondent court in Civil Case No. 99934; crediting to [UPSI] the amount of P60,000.00 monthly from September 24, 1980 to May 31, 1983, said amount having been paid the DBP for the properties ceded by [MCI and Dr. Mabanta] in the "dacion en pago"; and to pay interests on the amounts still due, at the legal rate, from the time that said amounts became due until they are fully paid, and [UPSI] or anyone occupying the premises under it, is hereby ordered to vacate the leased properties including the fixtures, supplies and equipment, listed in Exhibit A (other than the property ceded to the Development Bank of the Philippines in the "dacion en pago"), more particularly, what is now occupied by Juanchito's Restaurant and the passageway of the premises still owned by [MCI and Dr. Mabanta].
>
> [UPSI's] motion for reconsideration of the resolution of this court dated October 1, 1984 is hereby granted, and said resolution is hereby set aside.[16]

The aforementioned Resolution was appealed to this Court, where the petition was docketed as G.R. No. 71579. This Court dismissed the same. Thus, the IAC judgment attained finality.

During execution, the RTC of Manila, Branch 33, acting on MCI's "Motion for the Delivery of Leased Facilities/Equipment/Supplies and/or the Payment of their Value if Defendant cannot Deliver Them," issued an Order dated November 5, 1990, the dispositive portion of which reads:

> Accordingly, Defendant University Physician Services, Inc. is hereby directed to replace the equipment, facilities, supplies, etc. as reflected in the inventories. Annexes "A" to "A-8" and "B" to "B-8". If the same could not be substituted or replaced within the period of thirty days from receipt of this order, said defendant has to pay the value in the amount of P450,932.50 and P387,212.05 indicated in the aforesaid annexes. Defendant is likewise directed to return and deliver the leased facilities, equipments, supplies, etc., listed in the Summary of Inventory with Annex "A" or pay the plaintiff their value in the amount of P5,534,818.50 within the period of two months from receipt of this order.[17]

On November 29, 1990, UPSI appealed the above Order to the Court of Appeals, claiming that said Order varies the term of the IAC judgment, arguing that said judgment did not order the replacement of the leased properties lost or deteriorated and/or to pay their value if replacement cannot be made. UPSI further claims that the Court erred in giving MCI the discretion to determine the circumstances when replacement or payment of value shall be made. The appeal was docketed as CA-G.R. CV No. 34971.

On October 18, 2001, the Court of Appeals rendered the assailed Decision affirming the November 5, 1990 RTC Order. Thus, this Petition, in which UPSI submits the following issues for the resolution of this Court:

> A. WHETHER OR NOT THE ORDER IN EXECUTION DATED NOVEMBER 5, 1990 OF THE REGIONAL TRIAL COURT, BR. 33, NCJR, MANILA IS NULL AND VOID FOR IT TOTALLY CHANGED THE FINAL JUDGMENT SOUGHT TO BE EXECUTED;
>
> B. WHETHER OR NOT THE REGIONAL TRIAL COURT, BR. 33, NCJR, MANILA, HAS JURISDICTION IN ISSUING THE ORDER IN EXECUTION DATED NOVEMBER 5, 1990;
>
> C. WHETHER OR NOT THE ORDER IN EXECUTION DATED NOVEMBER 5, 1990 OF THE REGIONAL TRIAL COURT CHANGED THE ORIGINAL CAUSE OF ACTION OF PRIVATE RESPONDENT FROM UNLAWFUL DETAINER TO RECOVERY OF PERSONAL PROPERTIES AND/OR REPLEVIN THUS VIOLATING PETITIONER'S RIGHT TO DUE PROCESS;

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> D. WHETHER OR NOT ARTICLE 1667 OF THE NEW CIVIL CODE IS SQUARELY APPLICABLE TO THE CASE AT BENCH; AND
>
> E. WHETHER OR NOT THE OBLIGATION OF THE PETITIONER UNDER THE ORDER IN EXECUTION DATED NOVEMBER 5, 1990 FOR THE REPLACEMENT/RETURN AND/OR PAYMENT OF SUBJECT FIXTURES HAS BEEN RENDERED MOOT AND ACADEMIC FOR IT WAS EXTINGUISHED FIRST BY "DACION EN PAGO" DATED SEPTEMBER 1, 1980 EXECUTED BY PRIVATE RESPONDENT WITH THE DBP AND SECOND BY THE DEED OF CONDITIONAL SALE EXECUTED BY THE DBP IN FAVOR OF PETITIONER UPSI AND THIRD BY WAY OF PAYMENT IN FULL SATISFACTION OF THE JUDGMENT CREDIT IN CIVIL CASE NO. 52978.[18]

UPSI explains that the judgment sought to be executed enjoined it to do only the following:

- to pay the back rentals with interest less the rentals consigned in court and the subject of the dacion en pago; and

- to vacate the Juanchito's Restaurant and passageway as well as the fixtures appurtenant to the subject leased premises, excluding those ceded in the dacion en pago.

UPSI points out that the Order in Execution dated November 5, 1990 of the RTC affirmed by the Court of Appeals varied the judgment sought to be executed as it instead mandated the following:

- to replace and/or pay the value of the equipment, facilities, supplies, etc., as reflected in Annexes "A" to "A-8" and "B" to "B-8"; and

- to return and deliver and/or pay the value of the leased facilities, equipment, supplies, etc., listed in the Summary of Inventory with Annex "A."

The Court of Appeals ruled that the judgment sought to be executed reveals the intent of the court to have all of the leased properties returned upon the execution of the judgment. Indeed, the original Writ of Execution issued on April 10, 1987 included these personal properties. As some of the leased properties were not returned, causing only a partial execution of the judgment, the November 5, 1990 Order was necessitated. Said Order, according to the appellate court, did not vary the terms of the judgment but merely implemented the IAC's Decision. The Court of Appeals added that a contrary ruling would result in unjust enrichment on the part of UPSI.[19]

UPSI counters that the remedy of MCI is to file an action for recovery of personal properties or collection of the value thereof, as these actions have totally different and distinct cause of actions from that of ejectment.[20] UPSI points out that the only issue to be resolved in an unlawful detainer case is possession de facto, i.e., who between the party litigants has a better right of possession, and therefore an order to replace or pay the value of a leased property has no place in such action. UPSI argues that it was precisely because the cause of action of MCI was ejectment that the IAC merely directed UPSI to vacate the leased premises and not to replace or pay the value of the appurtenances of the leased properties if allegedly lost or destroyed.

It is settled that "a writ of execution must conform substantially to every essential particular of the judgment promulgated. Execution not in harmony with the judgment is bereft of validity. It must conform, more particularly, to that ordained or decreed in the dispositive portion of the decision."[21]

Did the writ of execution conform substantially to the essentials of the promulgated judgment?

The Court rules in the affirmative.

To begin with, it cannot be disputed that the subject matter of the lease agreement between the parties included real and personal properties. The pertinent portion of the lease contract provides:

> WHEREAS, MARIAN is the owner and operator of that enterprise, consisting of a hospital and 4 schools (nursing, medical X-ray technology, midwifery and medical secretarial science) operating at 918 United Nations Avenue, Manila, under the names and style of "MARIAN GENERAL HOSPITAL," "MARIAN SCHOOL OF NURSING," "MARIAN SCHOOL OF MIDWIFERY," and "MARIAN SCHOOL OF MEDICAL SECRETARIAL SCIENCE" (the last 4 being known collectively as "MARIAN SCHOOLS"), together with the land, buildings, facilities, furnitures (sic), fixtures and equipment appurtenant thereto, a inventory of which is hereto attached as Annex "A";
>
> WHEREAS, MARIAN is the owner of that lot located at 918 United Nations Avenue, Manila, covered by and described in Transfer Certificate of Title No. 105778 of the Register of Deeds of Manila, together with that building existing thereon known as the "SOLEDAD BUILDING", and other constructions and improvements thereon, which are also used by the hospital and schools, a list of which is hereto attached as Annex "B";
>
> x x x x
>
> NOW, THEREFORE, for and in consideration of the above premises and the terms and conditions hereinafter enumerated, the LESSORS agree to deliver unto the LESSEE, by way of lease, with right to possess, use, run and operate, that certain hospital and schools above-described, together with the lands, buildings, facilities, furnitures (sic), fixtures and equipment listed in Annexes "A" and "B" hereto attached (all of which - hospital, schools and assets as enumerated - are collectively referred to herein as the "LEASED ASSETS" x x x.[22] (Emphasis supplied.)

As discussed in the Decision of the Court of Appeals, the basis for the obligation of UPSI to return, and in certain circumstance, replace or pay the value of the above-mentioned appurtenances in the leased properties is both law and contract.

Article 1665 of the Civil Code provides that "[t]he lessee shall return the thing leased, upon the termination of the lease, just as he received it, save what has been lost or impaired by the lapse of time, or by ordinary wear and tear, or from an inevitable cause." Article 1667 likewise states that "[t]he lessee is responsible for the deterioration or loss of the thing leased, unless he proves that it took place without his fault." In other words, by law, a lessee is obliged to return the thing(s) leased and be responsible for any deterioration or loss of the properties, except for those that were not his fault.

However, it is significant to note that the parties saw fit to go a step further and stipulate the following:

> 4. During the term of this contract, the operation of the hospital and schools shall be deemed exclusively the enterprise and business of the LESSEE, and, therefore, the LESSEE:
>
> x x x x
>
> (d) Shall keep the LEASED ASSETS in good and decent condition and maintain the same at its own expense. Maintenance shall include, but shall not be limited to, keeping all equipment in good running condition, x x x and painting and repairing the buildings as may be necessary to keep them in decent and usable condition. x x x.
>
> x x x x
>
> (h) Shall surrender quickly and peacefully unto the LESSORS all the LEASED ASSETS, x x x upon termination of this Agreement.
>
> x x x x
>
> 8. In addition, the LESSEE agrees that:
>
> (e) All pillows, linen, sheets, mattresses, rubber sheets, x x x and such other similar breakable, losable or

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> deteriorating items as may be included in Annex "A" hereto attached, shall upon termination of this Agreement, be replaced by the LESSEE in the same quantity as turned over herewith by the LESSORS. All medical equipment also, if deteriorated upon termination hereof, shall be replaced in the same quantity and quality in which they were received by the LESSEE, ordinary wear and tear excepted.[23] (Emphasis supplied.)

Under the principle of the parties' freedom of contract, the contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.[24] Obligations arising from contracts have the force of law between the parties.[25] The provisions in the lease contract that:

> (1) All pillows, linen, sheets, mattresses, rubber sheets, x x x and such other similar breakable, losable or deteriorating items x x x shall upon termination of this Agreement, be replaced by the LESSEE in the same quantity as turned over herewith by the LESSORS; and
>
> (2) All medical equipment also, if deteriorated upon termination hereof, shall be replaced in the same quantity and quality in which they were received by the LESSEE. x x x.[26]

clearly show the parties' binding covenant that, upon the termination of the lease, certain types of movable properties subject of the lease will not simply be returned but replaced in the same quantity and/or quality in case of loss or deterioration.

The IAC's final and executory July 18, 1985 Resolution, ordering UPSI "to vacate the leased properties, including the fixtures, supplies and equipment" was in effect a judicial termination of the lease. Upon the termination of the contract, UPSI's duty to return and/or replace the leased properties arose. The return and/or replacement of the leased properties being a necessary consequence of the termination of the lease, the November 5, 1990 Order of the execution court did not vary the IAC judgment which ordered the restitution of the leased assets.

UPSI further argues that Article 1667 of the Civil Code is not applicable considering that the inventories of the leased properties which it was obligated to return was not yet established. UPSI also asserts that the order for the replacement of the subject fixtures had been rendered moot as it had already been extinguished by the dacion en pago dated September 1, 1980 with the DBP, by the deed of conditional sale executed by the DBP in favor of UPSI, and by UPSI's payment in full of the judgment in Civil Case No. 529778, a complaint for compensation and damages filed by MCI against UPSI.

As regards Article 1667 of the Civil Code, we hold that the applicability thereof, or of the provision of the lease contract holding UPSI liable in case of loss or deterioration of the subject properties, are not dependent on the presence, at the moment, of inventories. The execution court may conduct hearings to determine the existence of such an inventory and, if found that such is unavailable, further hearings may be conducted to reconstruct the same and determine the value of the properties that should be returned or replaced, if necessary.

On UPSI's argument that the order for the replacement of the subject properties had been rendered moot by dacion en pago, by a deed of conditional sale, and by payment in full satisfaction of the judgment credit in Civil Case No. 529778, we rule that the same may also be and are best threshed out in hearings to be conducted by the execution court. Indeed, there is a need for the execution court to (1) identify the mass of properties actually leased to UPSI; (2) identify and exclude the properties transferred to DBP under the dacion en pago and to UPSI under the conditional deed of sale; and (3) identify and exclude properties which UPSI already returned, replaced or paid the value of in Civil Case No. 529778. UPSI can be made responsible for only the remaining leased assets which have not been previously returned or replaced, if there are any. As these matters are factual in nature and it is elementary that this Court is not a trier of facts, remand of the case to the execution court would be in order.

WHEREFORE, the Decision of the Court of Appeals in CA-G.R. CV No. 34971 dated October 18, 2001, which affirmed the Order in Execution dated November 5, 1990 of the Regional Trial Court of Manila, is AFFIRMED with the MODIFICATION that the case be REMANDED to the Regional Trial Court of Manila, Branch 33, for further proceedings on the execution of the judgment in Civil Case No. 135396. Costs against petitioner University Physicians' Services, Incorporated.

SO ORDERED.

Corona, C.J., (Chairperson), Velasco, Jr., Del Castillo, and Perez, JJ., concur.

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[1] While the Petition was captioned as a Petition for Certiorari, it was clear in the body of the Petition that petitioners are invoking Rule 45 of the Rules of Court.

[2] Penned by Associate Justice Mercedes Gozo-Dadole with Associate Justices Ma. Alicia Austria-Martinez and Portia Aliño-Hormachuelos, concurring; rollo, pp. 44-56.

[3] Rollo, pp. 58-61.

[4] Now Regional Trial Court.

[5] Records, pp. 23-25.

[6] Id. at 2-11.

[7] Art. 1658. The lessee may suspend the payment of the rent in case the lessor fails to make the necessary repairs or to maintain the lessee in peaceful and adequate enjoyment of the property leased.

[8] Annex N of the Petition; rollo, pp. 179-190.

[9] Now the Court of Appeals.

[10] Deed of Conditional Sale, Annex O of the Petition; rollo, pp. 191-206.

[11] Rollo, pp. 62-76.

[12] Id. at 69.

[13] Id. at 73.

[14] Id. at 76.

[15] Id. at 77-90.

[16] Id. at 79-80.

[17] Id. at 60-61.

[18] Id. at 19-20.

[19] Id. at 52-53.

[20] Id. at 27.

[21] Government Service Insurance System v. Court of Appeals, G.R. No. 103590, January 29, 1993, 218 SCRA 233, 250.

[22] Rollo, pp. 117-118.

[23] Id. at 119-124.

[24] CIVIL CODE, Article 1306.

[25] CIVIL CODE, Article 1159.

[26] Rollo, p. 124.

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